Testimony of James O. Robbins,
CEO Cox Communications
Before the Senate Commerce Committee Hearing
On Cable Rates
(Submitted for the Record)

Mr. Chairman and distinguished members of this Committee, I have four points to make with you today: I) during the last three years, Cox has expended enormous effort and made huge capital investments to realize the competitive promise of the Telecommunications Act of 1996; II) the status of multichannel video competition is substantial; III) Cox's permitted rate increases, under regulation, are driven by the real exogenous costs of doing business; and, IV) in 1996 Congress set a course for deregulation which has led Cox, in partnership with the financial markets, to take risks to provide a host of new competitively priced services. To change regulations in the middle of this massive and highly complex effort would be – in my opinion – a colossal mistake.

1. With regard to my first point, years of effort and money are yielding exciting results.

- Between 1992 and 1999, Cox capital spending (including PCS and Teleport) will exceed $4 billion.

Cox is deploying an entirely facilities based network to launch new, competitively priced digital wireline telephony, high-speed data, long distance service through third parties and multichannel video services. We seek no unbundled network elements from the ILECs; we seek only reasonable interconnection to exchange traffic.

Our ring-in-ring hybrid fiber coaxial networks are the most advanced in the industry. They exceed Bellcore reliability standards for providing regular customer services as well as emergency 911 services.

This year 70% of our plant upgrade will be completed, comprising over 34,500 miles of infrastructure.

To date, we have installed telephone switches in 7 of our 9 clustered systems. (Over 85% of our 3.4 million customers are in these 9 clusters.) And we have developed a fully integrated management information system. This high technology platform supports low cost billing, data base and network management and all other aspects of customer care.

Cox already is providing <u>residential</u> digital telephony in Orange County, California, Omaha, Nebraska, New England and San Diego, as well as digital telephony in multiple dwelling units in Phoenix and Hampton Roads, Virginia.

Cox telephony and data services for large and small businesses are now available in Hampton Roads, Oklahoma City, New Orleans, Pensacola, Santa Barbara, Roanoke, Phoenix and San Diego.

Cox high-speed data services to residences using @Home are up and running in Orange County, San Diego, Phoenix, Omaha, New England, Hampton Roads and Oklahoma City.

- Digital television is launched in Orange County, New England, Omaha, New Orleans and Hampton Roads and will be available to over 75% of our customers within the next 18 months.

By the end of this year, the majority of our 9 clustered systems will offer digital telephony, data, and television. And by the end of next year almost all of our 3.4 million customers will have access to this broadband network.

Our pricing for residential telephone service is very competitive. For example, in our Orange

County system a customer with two lines, call waiting and voice mail pays $23.18 per month compared to Pacific Bell's charge of $32.95 for the same services, a 29% savings. In addition, local zone and local toll calls are priced substantially below Pacific Bell.

Where incumbent phone companies are able to offer digital subscriber line data service Cox's digital high-speed data service is faster and less expensive. For example, in the Cox Phoenix system, our @Home service is much faster than US West's MegaPak service. A 19 megabyte file can be downloaded in as little as 21 seconds compared to 2 minutes and 40 seconds with MegaPak. A Cox video customer taking @Home service pays $29.95 per month compared to $59.95 for MegaPak.

Cox's new digital video service is priced as low as $5.95 above the cost of existing cable video service. With this service, customers can add selections of packages up to 90 additional video channels; 40 CD-quality music channels; a sophisticated interactive on-screen guide that offers a channel search capability; and a program blocking device for children. Movie fans have access to as many as 50 different, uncut, commercial-free movies every night during prime time, with convenient scheduling and a sophisticated one-touch record feature that eliminates the hassles of programming a VCR. These movies are never out of stock and never result in charges for a late return.

- Cox has invested heavily in customer care for several years and has been recognized as a leader in the cable industry by independent agencies. We have also been awarded the NCTA seal for the majority of our systems since the inception of this NCTA standard.

Cox is currently spending $158 million dollars per year in customer care and has 1 trainer for every 75 customer care representatives. These representatives initially receive 6 weeks of extensive classroom and on the job training using the best learning technologies available.

Cox has established high technology customer care centers in 3 of its largest systems which allow customers the choice of reaching us through the personal assistance of our knowledgeable customer service representatives, the convenience of our interactive voice response system or electronically via the world wide web.

The result of this focus on investment in customer care include: telephones answered promptly in less than 30 seconds; expanded telephone hours, typically 7 days per week from 7:00a.m. to 12:00 midnight; and 24 hour technical support and repair services.

2. With regard to my second point, competition for multichannel video service throughout Cox's cable systems is real.

- Direct Broadcast Satellite, wireline plant overbuilds and wireless Multipoint Multichannel Distribution Service (MMDS) combined are now generating revenues in excess of $3 billion and have taken 15% of the multichannel TV market nationwide.

Just imagine what our friends the RBOCs would be saying about the state of competition in the telephone industry if they had witnessed this level of competition.

Within Cox's systems there is digital MMDS competition from BellSouth in New Orleans, and SBC Pacific Bell in So. California. There is analog MMDS competition in Phoenix, Tucson, Bakersfield, Oklahoma City, West Texas, and Roanoke. There are operational competitive overbuilds by Ameritech in Cleveland, by SNET in Connecticut, and by US West in Omaha and Phoenix.

Aggressive RBOC multiple dwelling unit marketing plans will soon be implemented by Direct TV in partnership with SBC and Bell Atlantic. This will add additional competition.

Last year, DBS subscribership grew 40% while Cox subscribership grew 2.7%. And DBS growth is running nearly 35% ahead of 1997.

3. I would now like to talk about Cox's cable rates.

- If competition from DBS has taught us anything, it is that our customers want more programming inventory. To meet this demand, Cox has increased its analog channel capacity by 75% since 1992, going to 95% by the end of 1998.

As we roll out our new digital services, Cox's weighted average number of channels per system will increase from 56 to more than 200.

Our average price per channel for regulated tiers in Feb. 1992 was 43 cents; in 1997, 49 cents; and today, 47 cents.

Since February 1996, each dollar of Cox rate increases related to existing basic and CPS tiers is divided among inflation, programming costs and going forward channel additions.

However, our aggregate capital spending for new customer services since the inception of cable rate regulation has been $3.3 billion.

A concept lost in the debate over rate increases since rate regulation is the relative stability in a typical Cox customer's total bill. With regulation, not only have basic and CPST rates been set by FCC formula, but equipment rental rates have been dramatically reduced for converter rentals, additional outlets and remotes. By way of illustration, in one of Cox's largest systems in San Diego, a typical customer bill in 1990 was $30.49 for 30 channels, an additional outlet, addressable converter and remote. Today that typical customer's bill is $34.49 for 68 channels and the same equipment. This represents an absolute total price change of 13% or 1.6% per year, while the price per channel decreased by 50% or 6.4% per year.

I believe this record amply demonstrates that our management of cable rates is quite focused on the substantial competitive pressure in our markets. We are increasing capacity and we are maintaining our average rate structures within the FCC benchmarks in response to this competition.

4. My final point is this: Cox has taken the risks to provide a host of competitively priced services in a new, all-digital world. We have done this in partnership with our stockholders and the financial markets, not on the backs of our video customers. We therefore have had to be careful and responsible stewards. In the spirit of entrepreneurship, Cox is embracing, at great cost and effort, the new technologies that are, in fact, producing real competition. This is a time consuming and extremely complicated task. Mr. Chairman, Congress had it exactly right when it set us on the course of deregulation where competition, rather than government and micromanagement, will discipline the marketplace. But I must tell you that a move toward reregulation in the middle of this process would be a colossal mistake. It is my view that the financial community would not tolerate such reversals. And if access to capital dries up, the cable industry and its customers will be horribly disrupted. I urge this Committee to let the market forces that you have unleashed continue to bring more choice and greater value into American households and businesses.